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Letter of Transmittal

Regina, Saskatchewan

March, 2003

To Her Honour,
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of Saskatchewan Government Insurance for the year ended December 31, 2002, including the financial statements in the form required by the Treasury Board and in accordance with the Saskatchewan Government Insurance Act.

I have the Honour to be, Madam,

Your obedient Servant,

Maynard Sonntag

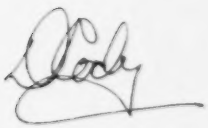
Honourable Maynard Sonntag
Minister Responsible for Crown Investments Corporation

Chair's Letter

In 2002, our team of employees and brokers continued to provide quality customer service and superior products at competitive prices.

I would like to thank the staff and brokers for their hard work during a year that held challenges for not only SGI CANADA, but the entire insurance industry. I would also like to thank the Board of Directors for their continued guidance and input.

SGI CANADA has been serving Saskatchewan for almost 60 years. I'm confident SGI CANADA's wealth of experience and expertise will help the Corporation continue to meet the needs of Saskatchewan people.



Donald W. Cody
Chair

Vice Presidents and Assistant Vice Presidents

VICE PRESIDENTS

Margaret Anderson
Systems

Cheryl Barber
Human Resources

Earl Cameron
Claims

Alan Cockman
Auto Fund

John Dobie
Finance

Randy Heise
Underwriting

ASSISTANT VICE PRESIDENTS

Doug Campbell
Claims

Anna Lapierre
Auto Fund

Ken Lerner
Claims

Bob Lundy
Claims

Maureen MacCuish
Communications

Gerry Marsden
Underwriting

Bernadette McIntyre
Auto Fund

Arun Patel
Salvage

Jim Roberts
Underwriting

Don Thompson
Finance

Dwain Wells
Systems

Lorne Whippler
Underwriting

Sherry Wolf
Claims

Board of Directors

STANDING (LEFT TO RIGHT)

W.J.A. (Bill) Heidt
Robert Fenwick
Donald W. Cody
J. Walter Bardua
Larry Fogg

SEATED (LEFT TO RIGHT)

Jim Mills
Nancy E. Hopkins
Joan F.D. Baldwin
Kendra Chesney
Joan R. Bellegarde
Dale Bloom, Corporate Secretary

MISSING

Doug Richardson

President's Message

2002 was a very challenging year for the entire insurance industry. Rising claim costs, increased reinsurance costs and a decline in investment income are industry-wide problems.

SGI CANADA has gone through difficult times in the industry before, and likely will again in the future – it's part of the cyclical nature of the insurance business. Currently, the industry is at the bottom of a market cycle.

The way to navigate through this difficult market is through careful and responsible management. SGI CANADA has been in business for almost 60 years, and has a long history of solid underwriting principles and practices. It is a stable, firmly rooted company that policyholders can rely on even in these challenging times.

One way that SGI CANADA has carefully managed its business is through expansion. Expansion is a sound business move – it spreads risk, protects and creates jobs in Saskatchewan and grows the revenue base.

SGI CANADA's subsidiary, SGI CANADA Insurance Services Ltd. (SCISL), has been operating in Manitoba since 1993. In January 2001, SCISL purchased 75% of the shares in the Insurance Company of Prince Edward Island (ICPEI). Then in July 2001, SCISL purchased 100% of Coachman Insurance Company in Ontario, the largest insurance market in Canada.

While ICPEI and Coachman both face the same issues as the rest of the insurance industry, Coachman has the added challenge of a difficult Ontario auto market. The critical goal facing Coachman and SGI CANADA is to stabilize Coachman's finances over the short term. Over the long term, the goal is to grow the business. Throughout, SGI CANADA intends to be there providing support and sharing expertise.

SGI CANADA will continue to carefully manage ICPEI and Coachman through these difficult times, and will continue on a path of careful, controlled growth.

While the insurance industry may be cyclical, some things remain constant at SGI CANADA. One of them is our adherence to strict underwriting guidelines.

Another constant is our continued commitment to providing quality customer service. SGI CANADA is enhancing its relationship with its customers by introducing the AIR MILES® Reward Program. As of Jan.1, 2003, SGI CANADA customers in Saskatchewan will be able to collect reward miles on almost all of our products. It's our way of thanking our loyal customers.

President's Message

SGI CANADA can also be relied upon for its continued commitment to the community. Year after year, we provide funding and support to a variety of community groups and organizations.

I'd like to thank our employees, shareholders, brokers and policyholders for their support and loyalty year after year.

Larry Fogg
President

SGI CANADA, like the rest of the industry, had a tough year. SGI CANADA's consolidated statements show a loss. This was primarily due to poor underwriting results, the increased cost of reinsurance and a decline in investment income. Added to that are the issues in the Ontario auto market that impact Coachman.

What does "market hardening" mean?

Market hardening is a general direction in the market where insurance rates are rising.

What is underwriting?

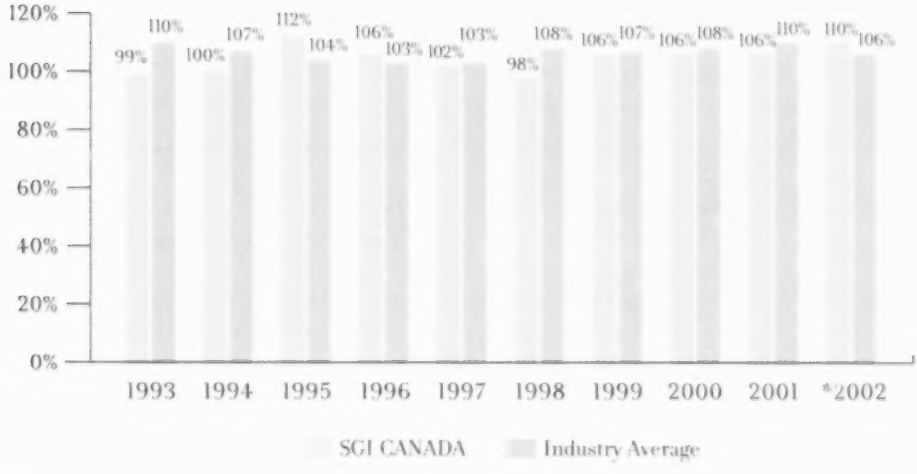
Underwriting is the process of assessing a risk, establishing a price and determining coverages and conditions to be offered.

Dwindling investment returns are putting intense pressure on rates, which are not increasing fast enough to cover the growing costs of claims. Insurance companies invest the revenue they receive from premiums in order to meet claim obligations over time. There has been a long-term trend for companies to rely on investment income while reducing rates to compete for business. In difficult market conditions, insurance companies rely on investment income in order to earn a profit.

The property market is hardening, but will need to continue hardening for some time. No one could foresee the downturn in the investment market – still an echo from the events of Sept. 11, 2001.

On a positive note, SGI CANADA remained true to its tradition of strict underwriting guidelines, enabling SGI CANADA to keep rate increases reasonable for its customers even in this difficult market. In the last 15 years, the insurance industry as a whole has not had an underwriting profit, whereas SGI CANADA had an underwriting profit in seven of those years.

COMBINED RATIO



*2002 industry forecast

Expansion

Expansion is important to spread risk, maintain and create jobs in Saskatchewan, and grow the revenue base.

SGI CANADA has been solidly established in Saskatchewan for almost 60 years, and can utilize its existing infrastructure to move into other markets without needing to also purchase support services in that region.

SGI CANADA has a careful and cautious approach to expansion, with entry into Manitoba in 1993, and Prince Edward Island and Ontario in 2001.

It's important to spread risk to protect Saskatchewan shareholders, due to SGI CANADA's large market share in Saskatchewan. Losses in one product or province can be made up through profits in other products and in other provinces. It's a basic business principle for insurance companies to balance their book of business geographically.

Expansion is also important to grow the revenue base. Since expanding into Manitoba in 1993, SCISL's consolidated premiums have grown to nearly $50 million, with $40 million coming from its subsidiaries, Coachman and ICPEI.

Premiums Written

Expansion also benefits employees at SGI CANADA, as it allows them to add to their expertise in the insurance industry by gaining experience in other markets. In turn, having employees with a high level of knowledge and experience is beneficial to the Corporation.

Expansion is very important for maintaining and creating jobs in Saskatchewan, and not just at SGI CANADA. For example, Greystone Managed Investments, a Saskatchewan-based investment management firm, has taken on investment management for Coachman and ICPEI.

SGI CANADA will remain cautious regarding expansion going forward.

SCISL

Growth in SCISL Premiums Written Since Inception

In order to facilitate the expansion of SGI CANADA, a subsidiary was formed called SGI CANADA Insurance Services Ltd. (SCISL). SCISL is a share-capital company that sells property and casualty products outside Saskatchewan.

SCISL has gained valuable experience in Manitoba since it started writing business there in 1993, and continues with slow and steady growth in that province. In fact, SCISL has grown to become the 12th largest insurer in Manitoba.

In 2001, SCISL continued expansion as it moved into Prince Edward Island and Ontario. As is the case with the rest of the industry, these companies have struggled with issues like investment income, reinsurance rates and rising claim costs.

What is reinsurance?

Reinsurance is basically insurance for insurance companies. Reinsurance is the process whereby insurers "reinsure" or transfer a portion of the risks they have assumed from policyholders to reinsurance companies.

SCISL will lend its expertise to manage Coachman and ICPEI in this difficult environment. Strict underwriting guidelines and rate increases that are responsive to the markets are key so that there isn't such a need to rely on investment income.

SCISL recaptured some of the Coachman loss through a holdback agreement on its purchase price. Over the past two years, SCISL has recouped about $2.7 million. This is standard practice in the insurance industry whereby conditions are imposed on the purchase agreement to ensure any adverse development on claims from prior years remains the responsibility of the previous owners. As well, SGI CANADA recaptured some of Coachman's loss in 2002 through reinsurance, recovering about $1.1 million.

SCISL

One of the key purposes of expanding the company is to create and maintain jobs in Saskatchewan. The expansion through SCISL, and its subsidiaries Coachman and ICPEI, generates a substantial amount of work for departments like Underwriting, Finance, Systems, Human Resources, Communications and other areas at head office in Regina.

"Expansion has created 55 person years of work at SGI," says John Dobie, SGI's Vice President of Finance.

COACHMAN

The Ontario auto insurance business is the largest insurance market in Canada, making up nearly 30% of the entire property and casualty market in the country. It makes good business sense to expand SGI CANADA into this market and SGI CANADA did so as the market began to harden and rates began to increase for auto products. No one predicted the serious downturn in the investment market. Like all insurance companies, dwindling investment returns are putting intense pressure on rates, which are not increasing fast enough to cover the growing cost of claims. As a result, Coachman shows a loss of $17.2 million.

Since taking ownership, SGI CANADA has actively managed Coachman in the highly competitive auto market in Ontario.

Rates have increased 34.1% since July 2001, including a rate increase effective Jan. 1, 2003. Underwriting practices have been changed, including moving to six-month policies.

SGI CANADA is also taking over responsibility for Coachman's computer systems, financial services and human resources support services, and transferring these functions to head office in Regina. As a large company, SGI CANADA has expertise in these areas that a smaller company like Coachman could never afford to purchase. Bringing in these services will give Coachman access to SGI CANADA's expertise, reduce administrative costs and maintain and create jobs at head office in Regina.

SGI CANADA has also begun to market its home and business products through Coachman, broadening the array of products offered through this company to meet the long-term goal of growing the book of business in Ontario.

ICPEI

ICPEI is facing many of the same issues as Coachman in regards to dwindling investment returns and rising claim costs. But despite the issues facing the industry as a whole, ICPEI made a profit of about $150,000 in 2002.

The profitability can be attributed to rate increases that were responsive to market conditions, taking on more business in P.E.I. and favourable 2002 winter weather conditions that kept claim costs reasonable.

ICPEI wrote a small amount of business in New Brunswick in 2002 and will continue to monitor that market for possible growth opportunities.

Customer Service

For more than half a century, SGI CANADA has been taking care of its customers and continually seeking ways to serve the customer even better.

Customers rely on SGI CANADA to be there when they need it. Summer storms can be a common occurrence on the prairie landscape. In August 2002, the Swift Current area was hit with a storm that rained down golf-ball sized hail. Claims poured in from residents who had suffered damage. SGI CANADA brought in extra appraisers and adjusters from around the province and set up a vehicle appraisal centre in a local curling rink in order to more quickly process the large number of claims.

Our customers were happy with the quick and caring service, as were local brokers. A group of local brokers even held an appreciation night for the SGI CANADA employees who had worked on the storm claims to show their gratitude for a job well done.

While it's usually damage and devastation that SGI CANADA appraisers and adjusters deal with, sometimes they get to see a happy result to their work. A fire that destroyed the community rink in Arcola, Sask. in September 2001 left a giant clean-up and a reconstruction bill of over $1 million. However, the outstanding teamwork between Arcola Agencies and SGI CANADA brought peace of mind back to the town of 500 people. In less than six weeks from the date of loss, the claim was settled and the town was able to concentrate on rebuilding plans.

The happy ending to this story is that the brand-new rink opened in November, with the official grand opening in January 2003.

Outstanding customer service is nothing new at SGI CANADA

May 1961 - An adjuster travelled over 3,500 km to the Arctic to view the site of a downed aircraft. The temperature was close to -40°C.

June 1975 - A torrential rain and wind "monsoon" wreaked havoc in the Regina area. Seventy-five adjusters worked on 8,000 claims totalling more than $8 million. Exactly two months later, a fire destroyed the Regina General Claims office and its records. Adjusters put in extra hours and cancelled holidays to salvage files and settle the claims.

1988 - Only seven days after fire ravaged Saskatchewan's only French school, College Mathieu in Gravelbourg, SGI CANADA presented an initial claim cheque of $500,000 to begin rebuilding the school.

August 1995 - A rain, wind and hail storm swept through southern Saskatchewan and devastated the community of Pilot Butte. Claims staff logged an extraordinary amount of overtime and cancelled holidays in order to settle storm-related claims.

For many small towns on the Prairies, the community rink acts as a centre for sports, culture and friendship. The community of Arcola, Sask. was devastated when its local rink was destroyed in a fire. Harry Plemel, Manager of Weyburn Claims Centre (left), Elaine Hislop, Arcola Agencies (centre) and Ron Grobbink, Adjuster 3 (right) worked together to settle the claim quickly. The new rink opened in November 2002.

"The quick claim settlement from SGI CANADA allowed our community to put the fire behind us and start making plans for the new rink," says Hislop.

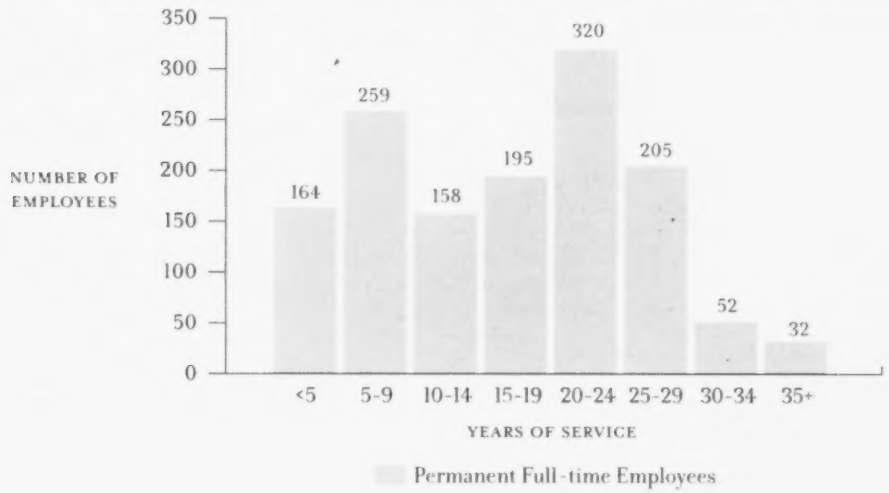
Experience and Expertise

The backbone of any company is its staff. SGI CANADA is fortunate to have a large wealth of employee knowledge and experience to draw from, as many of our employees have been with the company for several years, and in some cases, decades. The average for years of service of SGI employees is 17.

Of the more than 1,500 people employed at SGI, there are 609 permanent, full-time staff who have been with SGI for more than 20 years. Of those 609 employees, 205 have worked at SGI for between 25 and 30 years, and 84 employees have worked for the company for more than 30 years.

This large number of long-service employees allows SGI CANADA to offer a high level of experience and expertise to its customers.

Employee Years of Service



As well, many brokerages have been selling SGI CANADA products for decades. This gives us an additional edge with the years of experience and high level of knowledge of the brokers who are selling our products.

Most independent insurance brokers are also local businesspeople, meaning they're customer and community oriented.

SGI CANADA is proud to partner with our brokers for several community events and initiatives, including the annual SGI CANADA Charity Classic, the SGI CANADA Road Race and broker-sponsored child restraint clinics held throughout the province.

Gerry Marsden has worked at SGI longer than any other current employee. In July 2002, he celebrated his 45th anniversary with SGI. Gerry began his career in 1957 as a Junior Clerk in the Fire department. He is now the Assistant Vice President of Underwriting-Reinsurance, a position he's held since 1984.

"I'm fortunate to have a challenging job that allows me to do work I really enjoy," says Marsden. "I also get to work with a great team, and together we have built continuity and long-term relationships with reinsurers."

The very first broker ever appointed to SGI CANADA (then known as the Saskatchewan Government Insurance Office) was Oscar Sawby of Maple Creek, Sask. Now almost 60 years later, Sawby's grandson Perc Blythman (pictured) is still selling SGI CANADA products through Blythman Agencies in Maple Creek.

"We've always had a great relationship with SGI CANADA," says Blythman. "We're proud to have been with them since the very beginning."

BROKER RRSP PROGRAM

Brokers provide invaluable advice and expertise to our customers, as well as contributing to many community events. As a service to them, SGI CANADA introduced an RRSP program for brokers and their staff at the beginning of 2002.

At the end of December 2002, there were 282 brokerages participating in the program, including 768 broker principals and employees.

The independent broker network

SGI CANADA sells its Saskatchewan products exclusively through a network of about 330 independent brokers.

SGI CANADA brokers have contracts with us to market our products and to renew and service existing SGI CANADA insurance policies sold through their brokerages.

These brokerages make their own hours, pay their own expenses and have complete control over their own business. They also sell other insurance companies' products. An independent broker represents the customer, not any one insurance company, so they can best meet the customer's needs.

Changing Technology

Technological changes over time

1956 - The company installed the first teletype machine, which enabled staff to send messages quickly between Regina and the large Saskatoon branch.

1960 - The RAMAC IBM 305 computer arrived, and took up almost an entire room. SGI was the only insurance office in Western Canada with such a machine, and the first one in Canada to use it for insurance purposes.

1965 - The Corporation formed a Systems department to study office procedures and changes to provide more efficient, improved service to the public.

1982 - SGI acquired word processing equipment.

1993 - SGI began converting from a mainframe system to a state-of-the-art Local Area Network (LAN).

1998 - The implementation of the General Insurance System (GIS) was completed. The broker interface project began, allowing brokers to download policies electronically.

SGI CANADA continually strives to improve customer service and business efficiency through innovation.

A prime example of this is our General Insurance System (GIS), which was developed and implemented in the late 1990s. The state-of-the-art claims and underwriting system marked SGI CANADA's emergence as a technological leader in the insurance industry.

Improving business efficiency through technology is not only a smart way of doing business, but a necessary one. But along with automation comes a downside – the redundancy of jobs.

As business processes change and improve through innovation, the need for some jobs may be eliminated. But SGI CANADA has no interest in cutting its workforce. As a part of the Saskatchewan community, we're committed to maintaining and creating jobs for the people of the province.

One way to accomplish this goal, while still finding new and innovative ways to improve efficiency, is by growing the business through expansion. Maintaining and creating jobs in Saskatchewan was one of the main goals when SGI CANADA began to expand through SCISL, and remains one of the key purposes of any future growth plans.

Historical Employee Counts

Commitment to the Community

Every year SGI CANADA can be relied upon to provide support to community events, activities and programs. SGI CANADA's roots are in Saskatchewan, and we are committed to giving something back to the community.

SGI CANADA CHARITY CLASSIC

SGI CANADA's annual curling bonspiel celebrated its 10th anniversary in 2002. Since its inception in 1993, the SGI CANADA Charity Classic has been one of our most successful charitable ventures. With the support of our brokers and our business partners, as well as the dedication of our staff volunteers, the annual curling bonspiel has raised almost $250,000 to benefit numerous Saskatchewan charities.

SGI CANADA CHARITY ROAD RACE

Almost 300 people took part in the third annual SGI CANADA Charity Road Race in 2002. Competitors from Saskatchewan, Manitoba, Ontario and Newfoundland took part in the event that featured 10K and 5K road races, a 2K family walk and a 10K wheelchair race. All proceeds from the road race go to the Saskatchewan chapter of Kids Help Phone, Canada's only 24-hour, toll-free, bilingual and anonymous phone counselling, referral and Internet service for children and youth.

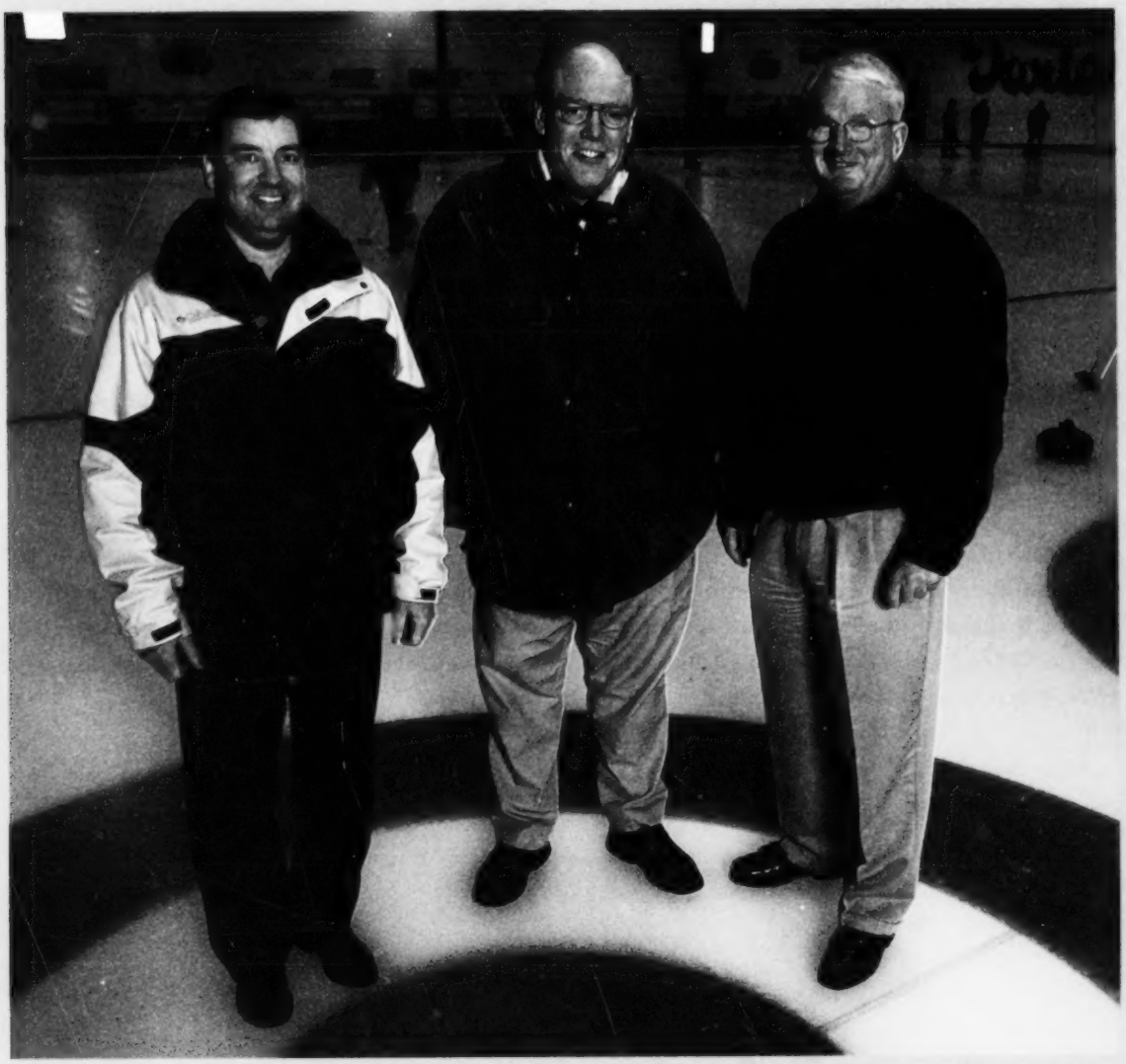
CHILD RESTRAINT CLINICS

For the past five years, SGI CANADA has partnered with local brokers to sponsor free child restraint clinics around the province. Between May and September 2002, there were 89 clinics held in 66 communities. Almost 2,000 child restraints were checked. Since the program began, over 10,000 child restraints have been checked in Saskatchewan.

CITIZENS ON PATROL

One of SGI CANADA's priorities is crime prevention. Since 1998, SGI CANADA has sponsored Citizens on Patrol programs throughout the province. Citizens on Patrol is a group of volunteers doing their part to keep their community safe. The volunteers patrol their community at night, reporting any suspicious activity to the RCMP.

The Citizens on Patrol programs are growing every year. In 2002, there were nine communities around the province with their own Citizens on Patrol groups.



Cliff Tornberg, SGI CANADA's Manager of Promotion and Advertising (right), spends time each year drumming up sponsorship for the SGI CANADA Charity Classic from local brokers like Earl Garrett of Grainbelt Agencies, Milestone (left) and Burns Barlow of Dusyk & Barlow Insurance Brokers, Regina (centre). Earl and Burns are two of the many brokers who have sponsored the SGI CANADA Charity Classic since its launch in 1993. In fact, when Cliff was first thinking about starting an annual bonspiel, Earl Garrett was one of the first people he discussed the idea with.

"Every year brokers donate tens of thousands of dollars," says Tornberg. "Without their support, the Charity Classic wouldn't exist, and we wouldn't have been able to donate almost $250,000 to Saskatchewan charities."

YOUTH CENTRES

In order to assist communities in providing positive extracurricular alternatives for young people, SGI CANADA provides funding to youth drop-in programs located in Prince Albert, Saskatoon, Regina, Nipawin and Ile-a-la-Crosse.

One of the centres SGI CANADA supports is the EGADZ Saskatoon Downtown Youth Centre. SGI CANADA is a long-time supporter of EGADZ and its work to provide positive alternatives for youth. The Check It Out Summer Program offers fun and interesting summer activities to youth who would not be able to afford or feel welcome participating elsewhere.

SMOKE ALARM PROGRAM

Since 1998, SGI CANADA has partnered with the Regina Fire Department to install free smoke alarms in high fire risk neighbourhoods. Since the program's inception, there have been zero fire fatalities in areas covered by the program.

In an effort to save lives and reduce the economic impact caused by fires, SGI CANADA enhanced its partnership with the Regina Fire Department in 2002 by assisting in the purchase of a Thermal Image Camera. The camera enables firefighters to detect "thermal images" in fire situations and more rapidly identify the presence of victims. The equipment also assists firefighters in locating invisible fire points (often contained within the walls of the structure) without the use of intrusive or damaging equipment.

Looking Ahead

As we look ahead to 2003, SGI CANADA's primary focus is to restore profitability. Continued rate increases as needed and strict underwriting guidelines will improve underwriting results and offset reduced investment income.

SGI CANADA will continue to manage SCISI and the expansion companies through this difficult market. The transfer of key support services from Coachman to SGI CANADA will give Coachman access to SGI CANADA's expertise, reduce administrative costs and create and maintain jobs at head office in Regina.

SGI CANADA will continue to look for growth opportunities, as expansion is key to creating and maintaining jobs in Saskatchewan, expanding the revenue base and spreading geographic risk.

While it has been a difficult time in the insurance industry, the cyclical nature of the business means a brighter future lies ahead. Until that future arrives, SGI CANADA will continue to do what it has been doing for over half a century — responsibly managing a Saskatchewan company for the benefit of Saskatchewan people.

Balanced Scorecard

SGI CANADA sells property and casualty insurance and is the competitive insurance arm under the umbrella of SGI, a provincially-owned Crown corporation.

SGI employs more than 1,500 people and operates 21 claims centres and five salvage centres in 13 communities across the province. SGI CANADA has developed a set of short and long-term objectives and targets that make up our Balanced Scorecard.

SGI CANADA has met or exceeded its key targets in the customer service and learning and innovation areas for 2002. SGI CANADA continues to improve in the public policy category, exceeding the target for women in under-represented roles, aboriginal and visible minority areas.

SGI CANADA was unable to meet its key targets in the financial category, mainly due to problems facing the entire insurance industry, such as reduced investment earnings, rising claim costs and the increased price of reinsurance. However, SGI CANADA did exceed its goal for investment portfolio return measured against investment market returns, in spite of the fact that poor investment income is an industry-wide problem.

SGI CANADA's performance is measured against the following key objectives.

	Strategic Objective	Strategic Measurement	2002 Target	2002 Actual
Financial	Provide return to shareholder	Pre-tax return on equity	20%	(6.2%)
		Investment portfolio return	Outperform the investment policy benchmark return of 4.5%	6%
	Underwrite profitably	SGI CANADA loss ratio	Less than 62%	64.5%
Customer Service	Commitment to the independent broker	Saskatchewan and Manitoba broker satisfaction	80% of brokers rate SGI CANADA the same or better than the competition	93%
	Deliver highly valued service to claims customers	Saskatchewan customer service survey	93%	94%

Balanced Scorecard

	Strategic Objective	Strategic Measurement	2002 Target	2002 Actual
Learning and Innovation	Improve business effectiveness through corporate training	Staff receiving specialized customer service training	100% of staff trained	100% of staff have received training
Public Policy	Economic diversification and growth	Per cent of dollars spent in Saskatchewan	90%	80.3%
	Representative workforce	Women in under-represented categories	47%	50.7%
		Aboriginal	7.5%	8.2%
		People with disabilities	9.7%	7.5%
		Visible minorities	2.9%	3%

Corporate Governance

AUTHORITY:

SGI CANADA is a division of SGI. It operates as a competitive insurer in the Province of Saskatchewan in accordance with the powers granted to it under the *Saskatchewan Government Insurance Act, 1980*. SGI is itself a statutory Crown corporation which is governed by the *Saskatchewan Government Insurance Act, 1980*. The Board of Directors oversees the management of the Corporation and holds management accountable for the Corporation's performance. Through the Chair, the Board of Directors is accountable to the Minister responsible for Crown Investments Corporation, who functions as a link between the Corporation and Crown Investments Corporation and Cabinet, as well as the provincial legislature.

COMMITTEES:

The Board of Directors has established the following committees to assist in the discharging of its responsibilities:

- Audit and Legislative Review Committee
- Finance and Investment Committee
- Governance Committee
- Human Resources Committee

TSE GOVERNANCE GUIDELINES (PROPOSED)

(1) The board of directors of every corporation should explicitly assume responsibility for the stewardship of the corporation and, as part of the overall stewardship responsibility, should assume responsibility for the following matters:

(a) adoption of a strategic planning process and approval of a strategic plan which takes into account, among other things, the opportunities and risks of the business;

SGI has a comprehensive annual strategic planning process. Senior management of the Corporation undergoes a process of long-term planning on an annual basis as a preliminary step in the preparation for the Board and Executive planning conference. The Board participates in the development and approval of the final version of the strategic plan which reviews the long-term risks the Corporation may face, as well as opportunities the Corporation should investigate or pursue.

(b) the identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks;

The Board has delegated to the Audit and Legislative Review Committee the responsibility for review and assessment of the nature and extent of the risks facing the company. The Committee determines the likelihood of the risks materializing. Through this review, the Committee addresses the risks acceptable to the Corporation and, for those that are not acceptable, ensures systems are in place to manage them. On an annual basis, the Committee reports to the Board the results of the review with any recommendations as appropriate.

(c) succession planning, including appointing, training and monitoring senior management;

The Board has delegated to the Human Resources Committee the responsibility to review the Corporation's succession planning strategy with the President on an annual basis. The Committee recommends to the Board a senior management succession plan.

(d) a communication policy for the corporation; and

The Corporation has a formal, written communication policy which has been approved by the Board of Directors.

The policy defines the communication practices for the Corporation, confirms that these practices will be guided by the values defined by the Corporation and commits the Corporation to providing timely communication to staff, shareholders and customers.

(e) the integrity of the corporation's internal control and management information systems.

The Board has delegated to the Audit and Legislative Review Committee the responsibility to review annually the Corporation's internal control systems and report to the Board the results of the review.

(2) The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors. If the corporation has a significant shareholder, in addition to a majority of unrelated directors, the board should include a number of directors who do not have interests in or relationships with either the corporation or the significant shareholder and which fairly reflects the investment in the corporation by shareholders other than the significant shareholder.

There are 11 individuals on the SGI Board of Directors. Of those 11, nine are unrelated. Larry Fogg, President and Chief Executive Officer, and Kendra Chesney, SGI Information Technology Analyst, are the only related Board members.

(3) The application of the definition of "unrelated director" to the circumstances of each individual director should be the responsibility of the board which will be required to disclose on an annual basis whether the board has a majority of unrelated directors or, in the case of a corporation with a significant shareholder, whether the board is constituted with the appropriate number of directors which are not related to either the corporation or the significant shareholder. The board will also be required to disclose on an annual basis the analysis of the application of the principles supporting this conclusion.

SGI is a statutory Crown corporation and, as such, it does not have any share capital.

Don Cody, Chair: Unrelated
Mayor, City of Prince Albert, SK

J. Walter Bardua, Vice Chair: Unrelated
Retired Insurance Professional

Doug Richardson: Unrelated
Lawyer, McKercher, McKercher & Whitmore

Nancy E. Hopkins: Unrelated
Lawyer, McDougall Gauley

Robert Fenwick: Unrelated
Retired Insurance Professional

Joan F.D. Baldwin: Unrelated
Doctor, Gardiner Park Clinic

Jim Mills: Unrelated
Mayor, Elrose, SK

Larry Fogg: Related
President, SGI

Joan R. Bellegarde: Unrelated
Executive Director, File Hills Qu'Appelle Tribal Council

W.J.A. (Bill) Heidt: Unrelated
President, TGS Properties Ltd.

Kendra Chesney: Related
Information Technology Analyst, SGI

(4) The board of directors of every corporation should appoint a committee of directors composed exclusively of outside directors, a majority of whom are unrelated directors, with the responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis.

The Governance Committee of the Board has been charged with the responsibility to recommend to the Board, within the constraints set forth in the Articles of the Corporation and in any applicable legislation, the size and the composition of the Board of Directors and the expertise of its members to meet the needs of the Corporation. As well, the Committee reviews the qualifications of potential candidates for appointment to the Board.

The Committee is comprised of four directors. They are all outside directors; one is related.

(5) Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors.

The Governance Committee is charged with the responsibility of recommending to the Board of Directors a process for evaluating the performance of the Board and its members. The Committee is responsible for implementing the process and undertakes the evaluation on an annual basis.

(6) Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board.

The Governance Committee is responsible for the implementation of an orientation program for new Board members and an ongoing education program for existing Board members. As well, Crown Investments Corporation provides, on an annual basis, a comprehensive training program for all Crown corporation directors.

(7) Every board of directors should examine its size and, where appropriate, a program to establish a board size which facilitates effective decision-making.

The Governance Committee of the Board has been charged with the responsibility to recommend to the Board, within the constraints set forth in the Articles of the Corporation and in any applicable legislation, the size and the composition of the Board of Directors and the expertise of its members to meet the needs of the Corporation. As well, the Committee reviews the qualifications of potential candidates for appointment to the Board.

(8) The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being a director.

Crown Investments Corporation is mandated by legislation to set the remuneration for the SGI Board of Directors.

(9) Subject to guideline 13, committees of the board of directors should generally be composed of outside directors, a majority of whom are unrelated directors, although some board committees may include one or more inside directors.

The Board Committees are comprised entirely of outside directors. All directors appointed to the Committees are unrelated, with the exception of one member appointed to the Governance Committee.

(10) Every board of directors should expressly assume responsibility for, or assign to a committee of directors the general responsibility for, developing the corporation's approach to governance issues. This committee would, among other things, be responsible for the corporation's response to these governance guidelines.

The Board has formed a Governance Committee which is responsible for monitoring the governance of the Board and Committees of the Board. The Committee recommends governance issues to be discussed at the Board level.

(11) The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO, including the definition of the limits to management's responsibilities. In addition, the board should approve or develop the corporate objectives which the CEO is responsible for meeting and assess the CEO against these objectives.

The Board has approved Terms of Reference which describe its responsibilities. As well, the Governance Committee reviews, as required and at least annually, the duties and responsibilities of the Board and all Board committees and recommends to the Board any amendments as deemed necessary or advisable, including identification of committees to which management should report on specific issues.

The CEO has a job description which is reviewed by the Human Resources Committee. The CEO is responsible for meeting the targets outlined in the Corporate Balanced Scorecard against which he is evaluated on an annual basis. The CEO evaluation is undertaken by the Human Resources Committee, and reported to and approved by the Board.

(12) Every board of directors should implement structures and procedures which ensure that the board can function independently of management. An appropriate structure would be to

(i) appoint a chair of the board who is not a member of management with responsibility to ensure the board discharges its responsibilities or

The Chair of the Board is an outside, unrelated director.

(ii) assign this responsibility to an outside director, sometimes referred which as the "lead director." The chair or lead director should ensure that the board carries out its responsibilities effectively which will involve the board meeting on a regular basis without management present and may involve assigning the responsibility for administering the board's relationship to management to a committee of the board.

The Board of Directors holds an in camera session at the beginning of each meeting, during which time management is excused.

(13) The audit committee of every board of directors should be composed only of unrelated directors. All of the members of the audit committee should be financially literate and at least one member should have accounting or related financial expertise. Each board shall determine the definition of and criteria for "financial literacy" and "accounting or related financial expertise." The board should adopt a charter for the audit committee which sets out the roles and responsibilities of the audit committee which should be specifically defined so as to provide appropriate guidance to audit committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues as appropriate. The audit committee duties should include oversight responsibility for management reporting on internal control. While it is management's responsibility to design and implement an effective system of internal control, it is the responsibility of the audit committee to ensure that management has done so.

The Audit and Legislative Review Committee is comprised entirely of outside, unrelated directors. The chair of the Committee is a chartered accountant, and all members of the Committee are financially literate. The Committee has a Board-approved mandate, which is reviewed regularly by both the Audit and Legislative Review Committee itself and the Governance Committee.

The Audit and Legislative Review Committee meets at least annually with both the external and internal auditors, during which time all management is excused.

The Committee's responsibilities include reviewing: the results of the external auditor's review of the Corporation's financial records; the plans and accomplishments of the internal auditor; and the reports of the internal and external auditors with respect to the Corporation's internal control systems. The Committee reports to the Board any matters which may remain unresolved.

(14) The board of directors should implement a system which enables an individual director to engage an outside adviser at the expense of the company in appropriate circumstances. The engagement of the outside adviser should be subject to the approval of an appropriate committee of the board.

As part of their constitution, the Board and its Committees have the authority to obtain the advice of outside experts in instances where they believe it is required, in order to properly discharge their obligations to the Corporation.

Management Discussion and Analysis

Introduction

The information in this discussion and analysis should be read in conjunction with SGI CANADA's (the Corporation's) consolidated financial statements and accompanying notes. This report is intended to assist the reader in understanding the financial position and operating results of the Corporation.

2002 Overview

There were many successes in 2002 for SGI CANADA, such as the merging of operations of recently acquired subsidiaries, expansion of the commercial and habitational products in Ontario and the implementation of a broker Registered Retirement Savings Plan (RRSP). These are positive customer service and operational changes, which will position SGI CANADA well going forward.

However, underwriting profitability for insurance in Canada is still a concern. In prior years this problem was offset by significant returns realized from investment portfolios, but for SGI CANADA and other insurance companies in Canada, 2002 was one of the worst years in the past decade for investment earnings.

Poor investment returns and continued underpricing of products has resulted in the worst financial results for SGI CANADA since 1985, with a loss on consolidated operations in 2002 of $8.8 million. In SGI CANADA's main market of Saskatchewan, profitability was down significantly and only a marginal profit relative to the size of the operation was realized. Operations in Manitoba and Prince Edward Island, while improving, were essentially break-even, while Ontario automobile operations realized a loss in 2002.

The Ontario automobile market, which is the largest in Canada representing nearly 30% of the property and casualty insurance market in the country, presents real challenges for all insurers in the market. Insurers are continuing to introduce significant rate increases and still incur large losses. The Ontario government has introduced legislation to reform this product with changes expected to be implemented by mid-2003. Aside from the planned legislative changes, SGI CANADA has made several operational changes in 2002 to the automobile product it sells through its Ontario subsidiary, with more planned for 2003 in order to return these operations to profitability. Changes implemented to date consist of rate increases of 34.1% since July 2001, including an increase effective Jan. 1, 2003, movement to six-month policies and imposing the strictest underwriting guidelines.

CORE BUSINESS

SGI CANADA is a provincially-owned Crown corporation operating a property and casualty insurance business. The Corporation was formed 57 years ago to provide quality affordable insurance products to Saskatchewan residents. SGI CANADA and its subsidiaries sell property and casualty insurance products in Saskatchewan, Manitoba, Ontario, Prince Edward Island and New Brunswick. In Saskatchewan, SGI CANADA has a long history of stability and community involvement throughout the province. This strong history and ongoing commitment to Saskatchewan has helped SGI CANADA maintain a significant share of this market. The products SGI CANADA sells are delivered through a network of 330 independent brokers located throughout the province. In order to continue delivering insurance products that customers desire, SGI CANADA works closely with its brokers to obtain input and advice on the changing needs of customers. With the assistance of the brokers, SGI CANADA continues to take the lead in delivering innovative insurance products to Saskatchewan residents and businesses.

To adequately assess risk, an insurance company relies to a great extent on information retained in its computer system to properly price the product. SGI CANADA maintains an integrated claims and underwriting system which was developed internally. While developing the system internally was time consuming, the end product is superior and has become one of the Corporation's competitive advantages. A team of business users and system professionals work together on a continual basis upgrading and enhancing the system to ensure it remains a competitive advantage for the Corporation.

SGI CANADA's ability to follow a disciplined underwriting approach in order to achieve underwriting profitability has been critical to its success. While the highly competitive market over the last several years has put pressure on SGI CANADA and all insurance companies' underwriting margins, the Corporation has historically been very successful at underwriting. This success has come from two areas: a large database of information in its underwriting system to properly assess risk and committed and experienced staff. The Corporation has been successful at retaining its employees, which over the years has contributed to its superior loss ratio in the Saskatchewan market compared to the insurance industry overall.

GROWTH AND DIVERSIFICATION

In the early 1990s, SGI CANADA formed SGI CANADA Insurance Services Ltd. (SCISL), a subsidiary of SGI CANADA, to sell insurance in other provincial jurisdictions. Growth outside Saskatchewan was sought to spread geographic insurance risk, grow the revenue base and maintain and create jobs in the province. Prior to the formation of SCISL, SGI CANADA derived 100% of its revenue from Saskatchewan with a significant share of the market and very limited growth opportunities.

SCISL began operations by obtaining a licence in Manitoba in 1993. Since this market was similar to Saskatchewan's, growth was achieved using the same model as SGI CANADA, appointing quality brokers one at a time and following disciplined underwriting practices. The goal was careful, controlled growth and developing a strong relationship with local brokers. At the end of 2002, SCISL's direct premium revenue was over $9.0 million in Manitoba.

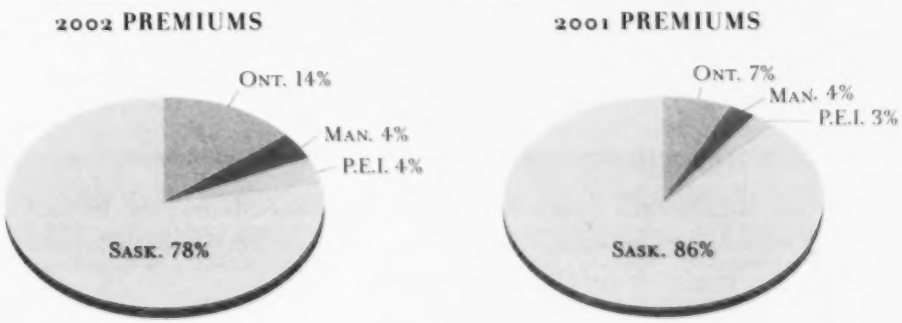
Since SCISL lacked underwriting experience outside the Prairie provinces, the growth strategy in other provinces was through acquisition and Jan. 1, 2001, SCISL purchased 75% ownership in the Insurance Company of Prince Edward Island (ICPEI). The other 25% shareholder is from Prince Edward Island and has extensive experience in this market. ICPEI provides the underwriting expertise while SCISL provides the infrastructure, such as computer systems, reinsurance and financial services. ICPEI currently writes over $9.0 million of primarily auto and personal lines premiums in Prince Edward Island. The company expanded in 2002 into New Brunswick and has appointed one broker there.

SCISL obtained an insurance licence in Ontario in 1995, however, without experience or a computer system to underwrite Ontario automobile insurance, growth in Ontario was limited. SCISL acquired Coachman Insurance Company of Ontario (Coachman) on July 1, 2001, to advance growth in this market. Coachman currently writes over $32.0 million of automobile insurance in Ontario. The investment in Coachman has been leveraged to facilitate growth in the Ontario property market. In 2002, SCISL began selling property insurance through some of Coachman's brokers.

Expansion into other provinces has decreased SGI CANADA's concentration of risk in the Saskatchewan market, has grown the revenue base and has maintained existing jobs and created new jobs in Saskatchewan.

SGI CANADA's consolidated premiums written of $229.5 million in 2002 includes a full year of Coachman results in comparison to 2001, which included only six months of Coachman results. In 2002, premiums from outside Saskatchewan were 22% compared to 14% in 2001. Growth outside of Saskatchewan is expected to continue with the expansion of SCISL property and casualty products in Ontario.

PREMIUMS WRITTEN BY PROVINCE



MEASURING SUCCESS

Financial success at SGI CANADA is measured by the Corporation's ability to provide an above average return on the equity invested by the shareholder. SGI CANADA's target is to have (on average) a return on equity that is higher than the insurance industry average. Historically, SGI CANADA's market knowledge has resulted in success in achieving this target.

To be able to deliver this above average return on equity, the Corporation must be able to deliver highly valued service to its customers. SGI CANADA surveys its brokers annually, as well as being a part of a periodic Insurance Brokers' Association of Saskatchewan survey. These surveys are analyzed to determine areas of strength and weakness and followed up with brokers to ensure we continue to deliver quality service.

Another critical area of customer service is in the claim handling process. While the activity that created the claim is not a positive situation for a customer, if the claim is handled with professionalism and courtesy, it can leave a strong impression with the consumer, creating a satisfied and loyal policyholder. Conversely, if the claim is not handled properly, it can lead to a dissatisfied policyholder who may spread word of the poor experience to others. To ensure the Corporation is maintaining its focus on customer service in the claim handling process, semi-annual surveys are sent to policyholders that have recently had a claim. These surveys are analyzed to determine if any issues exist that should be addressed through changes in claim handling policies or procedures.

SGI CANADA places a great deal of importance on the continual education and training of employees. Both technical and customer service training are emphasized at SGI CANADA. Providing these tools to employees leads to highly valued customer service from employees who have expertise to properly underwrite risks and adjust claims. Training is evaluated on an ongoing basis to ensure it provides employees with enhanced skills required to achieve the Corporation's vision.

OVERVIEW OF 2002 OPERATIONS

The loss in 2002 is $8.8 million compared to a $10.2 million profit in 2001. The earnings decline for SGI CANADA is a result of increased claim costs from Coachman combined with decreased investment earnings. A continued decline in equity markets and interest rates has affected all insurance companies across Canada. The consolidated underwriting loss in 2002 was $21.4 million, $11.0 million higher than last year's underwriting loss.

The following table summarizes the revenue and operating costs for 2002 and 2001 for the Corporation's operating segments. ICPEI and Coachman results differ from their stand-alone statements due to the recoverability of claims prior to SCISL's ownership and from premiums and claims associated with the adverse loss development reinsurance SGI CANADA purchased in relation to the Coachman acquisition. The claim recoveries will be received by SCISL and SGI CANADA, however, for purposes of analyzing profitability, they are included with the company that the premium and recovery relates to. All operating segments, with the exception of Coachman, had marginal income in 2002.

2002 SEGMENTED FINANCIAL RESULTS

(thousands of $)

2002	SGI CANADA	Coachman	SCISL	ICPEI	Consolidated
PREMIUMS WRITTEN	$ 179,640	$ 32,201 *	$ 9,203	$ 8,456	$ 229,500
PREMIUMS EARNED	$ 172,312	$ 25,780 *	$ 6,779	$ 7,204	$ 212,075
CLAIMS INCURRED	112,521	30,581 *	4,221	5,185 *	152,508
OTHER EXPENSES	67,538	8,482	2,846	2,104	80,970
UNDERWRITING LOSS	(7,747)	(13,283)	(288)	(85)	(21,403)
INVESTMENT EARNINGS	10,084	2,552	488	381	13,505
INCOME (LOSS) BEFORE INCOME TAXES	2,337	(10,731)	200	296	(7,898)
TAXES	-	2,964	142	102	3,208
NON-CONTROLLING INTEREST	-	-	-	-	(2,343)
NET INCOME (LOSS)	$ 2,337	$ (13,695)	$ 58	$ 194	$ (8,763)
LOSS RATIO	65.3%	118.6%	62.2%	72.0%	71.9%
EXPENSE RATIO	39.2%	32.9%	42.0%	29.2%	38.2%
COMBINED RATIO	104.5%	151.5%	104.2%	101.2%	110.1%

*** Net of claim and reinsurance recoveries**

2001 Segmented Financial Results

(thousands of $)

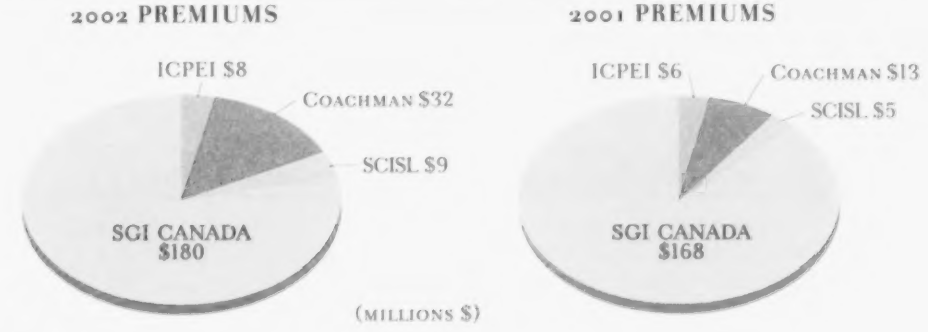
2001	SGI CANADA	Coachman	SCISL	ICPEI	Consolidated
Premiums written	$ 167,964	$ 12,694 *	$ 4,900	$ 6,176	$ 191,734
Premiums earned	$ 165,068	$ 12,142 *	$ 3,892	$ 5,944	$ 187,046
Claims incurred	107,970	10,667 *	2,929	5,496 *	127,062
Other expenses	64,160	2,939	1,677	1,620	70,396
Underwriting loss	(7,062)	(1,464)	(714)	(1,172)	(10,412)
Investment earnings	17,057	2,034	(243)	606	19,454
Income (loss) before income taxes	9,995	570	(957)	(566)	9,042
Taxes	-	(135)	(457)	(457)	(1,049)
Non-controlling interest	-	-	-	-	(92)
Net income (loss)	$ 9,995	$ 705	$ (500)	$ (109)	$ 10,183
Loss Ratio	65.4%	87.9%	75.2%	92.4%	67.9%
Expense Ratio	38.9%	24.2%	43.1%	27.3%	37.7%
Combined Ratio	104.3%	112.1%	118.3%	119.7%	105.6%

*** Net of claim and reinsurance recoveries**

PREMIUMS WRITTEN

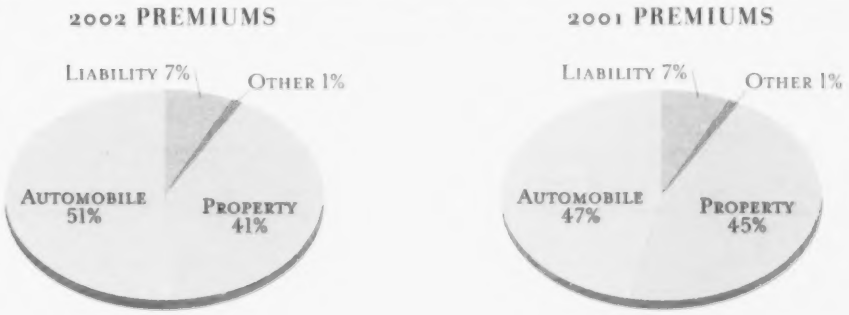
In 2002, premiums written totalled $229.5 million compared to $191.7 million in 2001, an increase of 19.7% or $37.8 million. Coachman's premiums in 2002 provided $19.5 million of premium growth, mainly due to 2001 consolidated results including only six months of Coachman premiums since date of acquisition. SGI CANADA Saskatchewan premiums grew by $11.7 million. SCISL operations increased by $4.3 million and ICPEI contributed $2.3 million to overall premium growth.

PREMIUMS WRITTEN (BY COMPANY)



With a full year of Coachman results included in 2002, automobile premiums represent 51% of total premiums, which is similar to the Canadian property and casualty industry total of 55%.

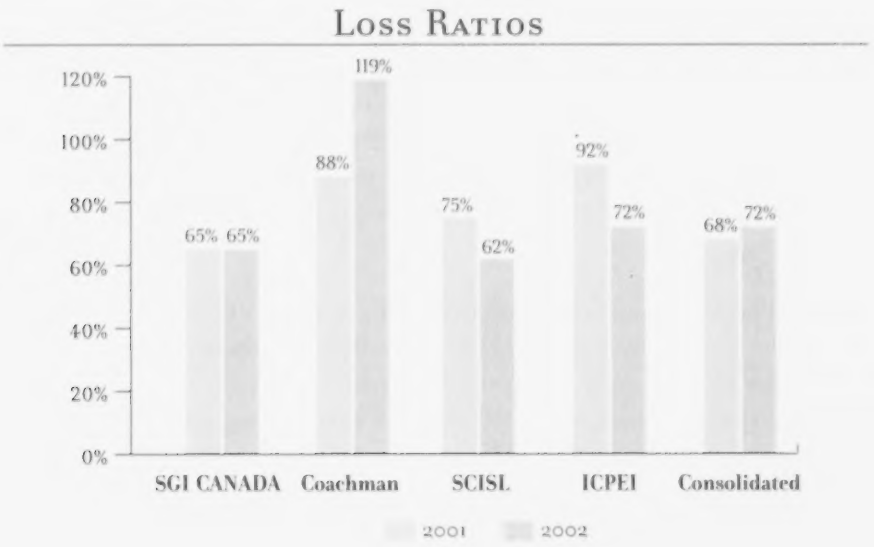
PREMIUMS WRITTEN (BY TYPE)



Claims Incurred and Provision for Unpaid Claims

Claim costs in relation to premiums in 2002 remained constant or decreased from 2001 for all operating segments with the exception of Coachman. ICPEI claim costs in relation to premiums decreased significantly as the loss ratio fell from 92% in 2001 to 72% in 2002. SCISL also had a substantial loss ratio decrease (13%) while SGI CANADA's remained unchanged from 2001. Coachman's loss ratio in 2002 was 119% compared to 88% in 2001.

Overall, claim costs in 2002 of $152.5 million showed an increase of $25.4 million from last year with Coachman claims in 2001 only including six months of operation. In 2002, Coachman claim costs include a $2.5 million reduction (2001 - $231,000) for recovery of adverse development on prior year claims that SCISL will recapture as part of the purchase agreement. Also included in Coachman claim costs in 2002 is a $1.1 million reduction from reinsurance on adverse claim development purchased by SGI CANADA. In 2002, ICPEI claim costs include a reduction from adverse loss development on prior year claims of $72,000 (2001 - $461,000) that SCISL will recover from ICPEI's former parent.



The Corporation establishes provisions for unpaid claims as they are reported. This provision is adjusted as more information becomes available about the claim. With the assistance of an external actuary, a provision is also established for future development on reported claims and claims that have not yet been reported.

Determining future development on reported claims and unreported claims is based on historical claims experience and other factors such as future inflation expectations, court decisions and economic conditions. The provision for claims that are paid out quickly, such as property claims, are generally easier to determine than claims that take several years to settle, such as liability claims, which can be very difficult to predict. On the current book of business, there was a $4.4 million deficiency in 2002 on prior year claim reserves, compared to 2001, which had no significant development on prior year claims.

Prior to 1986, the Corporation wrote a book of reinsurance-assumed business. Reinsurance assumed is the process of accepting a portion of insurance risks from other insurance companies. While this business has not been written since 1985, some of the business is long term in nature, and the costs are very unpredictable. Therefore, as more information becomes available on these claims, the Corporation has to adjust reserves. When possible, the Corporation commutes portions of the assumed business, which eliminates all claims exposure. In 2002, there was a $282,000 increase in claims incurred associated with this business compared to a $2.5 million reduction in 2001. The net provision for unpaid claims relating to this business at the end of 2002 was $11.3 million (2001 - $12.1 million).

Insurance regulators and the Canadian Institute of Actuaries (CIA) have different standards for discounting claim liabilities to recognize the time value of money. The Corporation follows the standard of insurance regulators, which only allows discounting of certain claim liabilities, while the CIA's standard requires discounting of all claim liabilities. Because of the discrepancy between the two methods, the CIA's policy is to provide a qualification in the actuary's report.

Expenses Excluding Claims Incurred

Other expenses of $81.0 million increased by $10.6 million due mainly to the inclusion of a full year of expenses from Coachman in 2002 (2001 includes only six months). The overall ratio of other expenses to premiums on a consolidated basis was essentially the same as 2001. Coachman and ICPEI have lower ratios in comparison to SGI CANADA and SCISI, due to lower broker commissions on automobile business and due to the nature of automobile insurance, which is not as complex to underwrite, resulting in lower administrative costs than non-auto property and casualty insurance products.

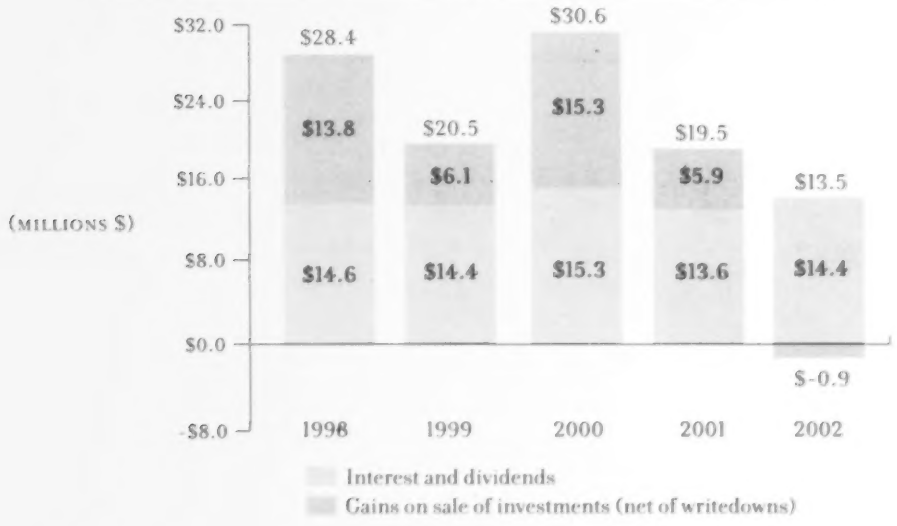
Investment Earnings

Insurance companies hold funds in reserve for unearned premiums and unpaid claims. These funds, in addition to the company's equity base, form a large pool of assets used for investment purposes. Earnings from the investment portfolio supplement earnings from insurance operations. Because a portion of these funds are held only for short periods, and because of the unpredictability of large cash outflows due to weather, an insurance company must take a more short-term investment approach compared to a pension plan, which invests its funds for longer periods.

The Corporation records only the appreciation in market value of its investments on their sale. This results in unrealized gains in the investment portfolio, which are not recorded in the financial statements. This amount at the end of 2002 was $12.2 million, compared to $14.6 million in 2001.

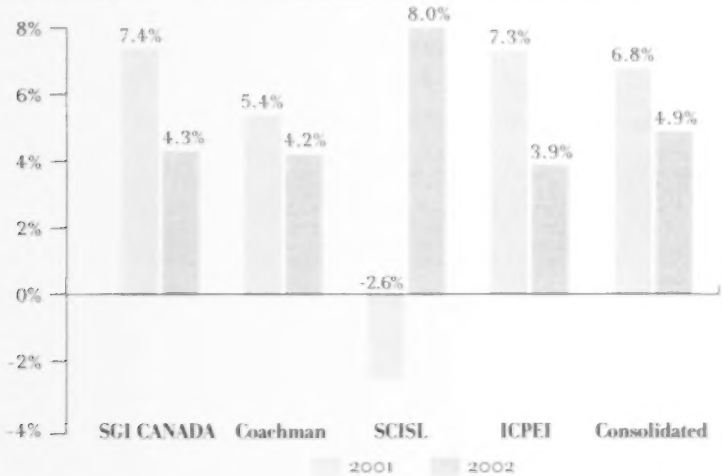
Consolidated investment earnings in 2002 were $13.5 million, compared to $19.5 million last year with only six months of Coachman's investment earnings included in 2001. Gains on the sale of investments can vary significantly from year to year. The Corporation sustained losses (net of writedowns) on the sale of investments in 2002 of $904,000, compared to $5.9 million in gains on the sale of investments in 2001.

INVESTMENT EARNINGS



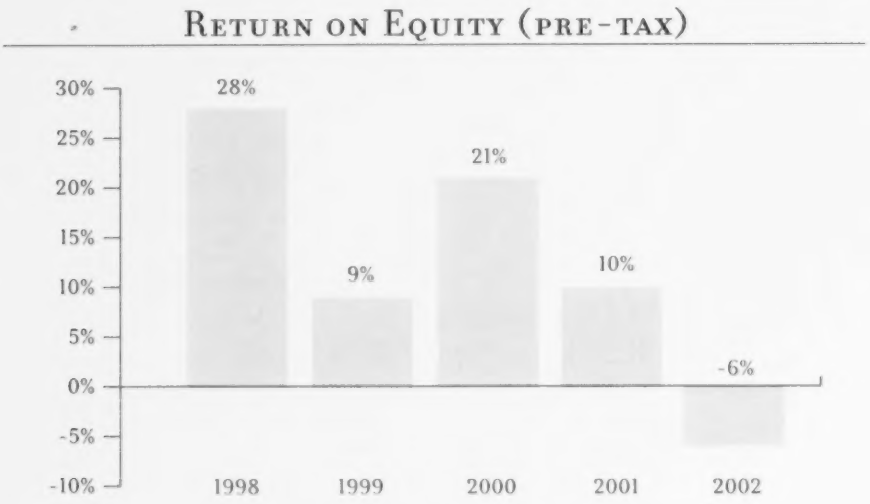
With the exception of SCISL, the return on investments was lower in 2002 for all operating segments compared to 2001. SCISL had a negative return of 2.6% in 2001 due to losses sustained on its equity investment in a crop hail insurance company. The consolidated return on investments in 2002 was 4.9%, a decrease of almost 2% from 2001.

RETURN ON INVESTMENTS



PERFORMANCE MEASUREMENT RATIOS

Return on equity is a measurement of profit earned relative to the equity invested by the shareholders in the Corporation. The pre-tax return on equity in 2002 was a negative 6%, compared to 10% in 2001. The decrease was a result of underwriting losses from Coachman and a decline in investment earnings. SGI CANADA's 10-year average return on equity is 13.2%.



Loss ratio is an insurance industry measurement expressing claims incurred as a percentage of premiums earned. The loss ratio on current operations increased in 2002 to 72% from 68% in 2001.

The combined ratio is a measurement of total expenses (including claims) in relation to premiums earned. Insurance companies attempt to achieve a ratio of less than 100%, which would result in an underwriting profit. The Corporation's 2002 combined ratio of 110% is higher than the projected industry average of 106% and is a 4% increase from 2001.

Net risk ratio is an industry measurement, which is the ratio of net premiums written to equity, and gives some indication of a company's financial strength to support the insurance business that it writes. The lower the ratio, the better the insurance company's financial resources can withstand adverse underwriting results. The net risk ratio in 2002 was 2.1 (2001 - 1.9).

REINSURANCE

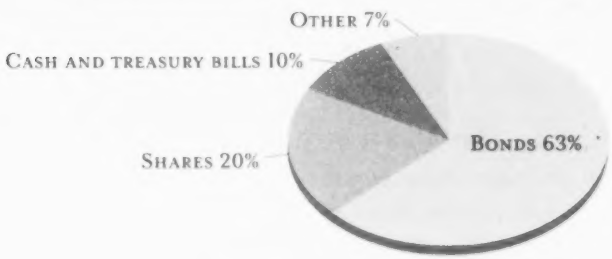
Reinsurance is the process of passing part of a risk or risks from one insurance company to another insurance company (the reinsurer). Two of the key reasons for reinsuring are increasing the insurance company's capacity to write business and providing greater stability by reducing fluctuations in financial results due to large individual losses or catastrophic events.

The Corporation purchases a variety of proportional and excess reinsurance contracts that provide coverage on a per risk or per event basis to limit exposure from large single losses or catastrophic events. Reinsurers are carefully selected with an emphasis on continuity and long-term relationships. Solvency of reinsurers is paramount in this process.

LIQUIDITY

Given the Corporation's reinsurance program to protect against major catastrophes and its liquid investment portfolio, the Corporation is confident there is sufficient cash to meet all financial obligations as they fall due. In 2002, cash inflows from insurance operations provided $12.1 million in cash compared to $16.7 million in 2001. As of Dec. 31, 2002, the Corporation's investment base was $301.8 million, consisting mainly of treasury bills, government and corporate bonds and common shares of Canadian companies.

INVESTMENT PORTFOLIO AS AT DECEMBER 31, 2002



RISK MANAGEMENT

The following issues and risks, among others, should be considered when evaluating the Corporation:

Catastrophe Exposure

Property and casualty insurers are subject to losses arising from catastrophic events. With the Corporation having a significant portion of the Saskatchewan property insurance market, it is susceptible to large losses from major storms in Saskatchewan. To contain this risk, the Corporation purchases catastrophe reinsurance protection that reduces the potential impact from major losses as a result of catastrophic events. While the Corporation has a heavier geographic concentration of risk than other major insurance companies in Canada, it is less susceptible than other insurance companies to catastrophes from earthquakes and hurricanes because of the location of its insurance business.

To reduce the concentration of risk, the Corporation began expanding into other Canadian provinces in the early 1990s. Through its subsidiary, SCISL, and its subsequent out-of-province acquisitions, the percentage of Saskatchewan business has declined to 78% at the end of 2002.

Competition

The insurance industry in Canada is very competitive and continues to underwrite its insurance operations at a loss. As well, prices in the industry can be very cyclical. When rates become profitable, some insurers begin dropping rates to obtain market share and will reduce rates to unprofitable levels. The Corporation's strategy is to maintain its underwriting principles. This may result in some reduction in business until prices return to acceptable levels. Competition also exists from insurers with different distribution channels, such as direct writers.

Provision for Unpaid Claims

The Corporation maintains a provision for unpaid claims to cover its liability for future payments on these claims. The provision includes an estimate for future development on reported claims and an estimate for claims that have not yet been reported to the Corporation. These provisions are estimates, and the ultimate payment on these claims may differ from the estimate.

Investment Returns

The majority of the Corporation's profit is derived from the investment portfolio. Returns from capital markets are uncertain and fluctuate from year to year. To mitigate the fluctuations, the Corporation maintains a well-diversified investment portfolio and utilizes the services of three investment managers.

Each investment manager follows the guidelines established in the Investment Policy and Objectives, which provides the manager with a guideline for the quality, quantity and rate of return standards for the portfolio. The Investment Policy and Objectives for each fund manager are reviewed annually by management and approved by the Board of Directors. Fund managers produce quarterly reports on the performance of assets under their management that are reviewed by corporate management and the Finance and Investment Committee of the Board of Directors. As well, the Corporation utilizes the services of an investment consultant to independently review and report on the performance of the investment managers.

Acquisitions

With SCISL's purchase in 2001 of ICPEI and Coachman, the Corporation faces the risk of adverse claim development from claims prior to becoming owner. The Corporation has mitigated the risk on both of these acquisitions. With the ICPEI investment, as part of the purchase agreement, the previous owner is required to refund to SCISL any prior years' development. For the Coachman investment, $2.7 million of the purchase price was held in trust to be applied against prior years' claim development. In addition, the Corporation purchased adverse loss development reinsurance should Coachman's losses on claims occurring prior to purchase exceed $3.0 million.

LOOKING FORWARD

In 2003, the current hardening of the insurance market is expected to continue. Pressure to restore underwriting profitability in the face of declining capital markets and reduced investment returns will be intense throughout the industry. Insurers will be moving to increase rates to cover the cost of claims, as they can no longer rely on investment returns to subsidize these losses. Like other insurers, SGI CANADA and its subsidiaries will be increasing rates in 2003 to offset reduced investment returns.

Over the short term, major initiatives will be taken at Coachman to restore profitability. These include increasing auto insurance rates, imposing the strictest underwriting guidelines to all auto insurance business and increasing administrative efficiency by transferring systems, financial and human resource support services to head office in Regina. SGI CANADA remains committed to its strategy to grow the property and casualty business in Ontario and will continue to expand into the market selling home and business insurance through its network of Coachman brokers in 2003.

SGI CANADA has the necessary expertise and experience to successfully address the challenges that are inherent in the current industry cycle. Our 57-year history of maintaining strict underwriting guidelines means the overall impact on SGI CANADA as a result of current market conditions is less than the industry as a whole. As a result, SGI CANADA is well positioned to weather the current cycle and expects to restore profitability over the short term.

Responsibility for Financial Statements

The consolidated financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Saskatchewan Government Insurance (the Corporation) within reasonable limits of materiality.

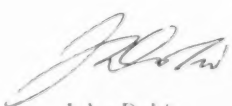
Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An audit committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Larry Fogg
President



John Dobie
Vice President
Finance

February 14, 2003

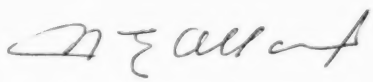
Actuary's Report

To the Board of Directors of Saskatchewan Government Insurance

have valued the policy liabilities of SGI CANADA for its consolidated statement of financial position at December 31, 2002 and their change in the consolidated statement of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Canadian insurance regulatory practice required that the valuation of some policy liabilities not reflect the time value of money. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.



Jean-Luc E. Allard
Fellow, Canadian Institute of Actuaries

February 14, 2003

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have examined the consolidated statement of financial position of Saskatchewan Government Insurance as at December 31, 2002 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2002 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 14, 2003

Consolidated Statement of Financial Position

December 31	2002	2001
	(thousands of $)	
Assets		
Cash and treasury bills (note 3)	$ 30,280	$ 30,098
Accounts receivable (note 4)	70,886	55,508
Deferred policy acquisition costs	28,210	26,322
Future income taxes	762	4,120
Unpaid claims recoverable from reinsurers (note 8)	30,467	12,680
Reinsurers' share of unearned premiums	6,734	5,544
Investments (note 5)	268,255	258,838
Net investment in capital lease (note 6)	3,264	3,507
Goodwill	481	481
Capital assets (note 7)	10,893	13,381
	$450,232	$ 410,479
Liabilities		
Accounts payable and accrued charges	$ 13,333	$ 12,072
Dividend payable	-	575
Future income taxes	111	311
Premium taxes payable	10,104	9,075
Amounts due to reinsurers	4,587	3,607
Provision for unpaid claims (note 8)	206,155	172,924
Unearned reinsurance commissions	1,278	1,106
Unearned premiums	127,664	112,302
	363,232	311,972
Non-controlling interest	1,916	4,660
Province of Saskatchewan's equity		
Equity advances (note 9)	55,000	55,000
Retained earnings	30,084	38,847
	85,084	93,847
	$450,232	$ 410,479

(see accompanying notes)

Consolidated Statement of Operations and Retained Earnings

year ended December 31	2002	2001
	(thousands of $)	
Premiums written	$ 229,500	$ 191,734
Premiums earned (note 10)	**$ 212,075**	$ 187,046
Claims incurred (notes 10 & 11)	152,508	127,062
Commissions (note 10)	41,643	34,721
Premium taxes (note 10)	10,244	9,110
Administrative expenses (note 10)	28,416	26,514
Facility Association participation (note 18)	667	51
Total claims and expenses	**233,478**	197,458
Underwriting loss	**(21,403)**	(10,412)
Investment earnings (note 12)	13,505	19,454
Income (loss) before taxes and non-controlling interest	**(7,898)**	9,042
Future income tax expense (recovery) (note 13)	3,152	(1,059)
Capital taxes	56	10
Income (loss) after taxes and before non-controlling interest	**(11,106)**	10,091
Non-controlling interest	(2,343)	(92)
Net income (loss)	**(8,763)**	10,183
Retained earnings, beginning of year	38,847	37,829
Dividend	-	(9,165)
Retained earnings, end of year	**$ 30,084**	$ 38,847

(see accompanying notes)

Consolidated Statement of Cash Flows

YEAR ENDED DECEMBER 31	2002	2001
	(thousands of $)	
Cash provided by (used for) operating activities		
NET INCOME (LOSS)	$ (8,763)	$ 10,183
NON-CASH ITEMS:		
AMORTIZATION	3,365	3,313
REALIZED GAIN ON DISPOSAL OF INVESTMENTS AND CAPITAL ASSETS	(1,978)	(6,616)
INVESTMENT WRITE DOWNS	2,903	672
LOSS ATTRIBUTABLE TO NON-CONTROLLING INTEREST	(2,343)	(92)
LOSS (INCOME) FROM EQUITY INVESTMENTS	(28)	633
CHANGE IN NON-CASH OPERATING ITEMS (NOTE 14)	18,950	8,604
	12,106	16,697
Cash used for investing activities		
PURCHASES OF INVESTMENTS	(418,498)	(323,859)
PROCEEDS ON SALE OF INVESTMENTS	409,346	328,568
PURCHASE OF COACHMAN (NET OF CASH EQUIVALENTS ACQUIRED FROM ACQUISITION)	-	(6,241)
PURCHASE OF ICPEI (NET OF CASH EQUIVALENTS ACQUIRED FROM ACQUISITION)	-	(1,804)
REPAYMENT OF CAPITAL LEASE	243	220
PURCHASES OF CAPITAL ASSETS	(229)	(1,933)
	(9,138)	(5,049)
Cash used for financing activities		
SHAREHOLDER CONTRIBUTIONS IN ICPEI	-	261
PREFERRED SHARE PURCHASE IN ICPEI	(400)	-
DIVIDENDS PAID	(575)	(10,359)
	(975)	**(10,098)**
Increase in cash and cash equivalents	**1,993**	**1,550**
Cash and cash equivalents:		
BALANCE, BEGINNING OF YEAR	14,770	13,220
Balance, end of year	**16,763**	14,770
PLUS TREASURY BILLS GREATER THAN 91 DAYS TO MATURITY FROM ACQUISITION DATE	**13,517**	15,328
Cash and treasury bills per statement of financial position	$ 30,280	$ 30,098

(SEE ACCOMPANYING NOTES)

Notes to the Consolidated Financial Statements

ecember 31, 2002

1. STATUS OF THE CORPORATION

Saskatchewan Government Insurance (the Corporation), which operates under the trade name of SGI CANADA, was established as a branch of the Public Service by the *Government of Saskatchewan Insurance Act, 1944*, reorganized pursuant to the *Saskatchewan Government Insurance Act, 1946*, and continued under the provisions of the *Saskatchewan Government Insurance Act, 1980*.

The Corporation conducts a property/casualty insurance business in the Province of Saskatchewan under the provisions of its Act and also acts as administrator of the Saskatchewan Auto Fund (the Fund) under the provisions of the *Automobile Accident Insurance Act*.

As a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the financial results of the Corporation are included in the consolidated financial statements of CIC. The Corporation is a provincial Crown corporation and as a result is not subject to federal or provincial income taxes. The Corporation's subsidiary, SGI CANADA Insurance Services Ltd. (SCISL), which operates in provinces other than Saskatchewan, is subject to federal and provincial income taxes.

2. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Consolidation

The consolidated financial statements include the accounts of the Corporation and the consolidated accounts of its 84% (2001 – 83%) owned subsidiary, SCISL. All intercompany accounts and transactions have been eliminated on consolidation.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Goodwill

The excess of the purchase price of acquired businesses over the net of the amounts assigned to assets acquired and liabilities assumed is recognized as goodwill. All goodwill acquired in a business combination is allocated to one or more of the Corporation's reporting units as at the date of acquisition.

In 2002, the Corporation adopted new recommendations by the Canadian Institute of Chartered Accountants (CICA) on goodwill. Under the new provisions, the Corporation will cease to amortize goodwill, and the goodwill of a reporting unit will be tested for impairment on an annual basis. The impairment test can be done between annual tests if an event or circumstance occurs that more likely than not impairs the asset. The goodwill impairment test has two steps. In the first step, the carrying amount of each reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered to be not impaired and the second step of the impairment test is unnecessary. The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of the reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess. Any impairment losses arising from the annual tests are charged to income. The impairment test of allocated goodwill resulted in no impairment loss at Dec. 31, 2002.

Adoption of this standard had no impact on the financial results other than the elimination of the annual goodwill amortization of $28,000 beginning in 2002.

Investments

Bonds, debentures and mortgages are recorded at amortized cost. Treasury bills, common shares and pooled funds are recorded at cost. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on the date of trade.

Where the Corporation has investments in shares and exercises significant influence, the investments are accounted for on the equity basis and the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

Investments are written down when there is a decline in value that is other than temporary.

Capital lease

Investment earnings related to the direct financing lease are recognized in a manner that produces a constant rate of return on the investment in the lease. The net investment in the lease is composed of net minimum lease payments less unearned finance income.

Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

BUILDING	2 ½%
COMPUTER HARDWARE, SYSTEM COSTS AND OTHER EQUIPMENT	20 - 33 ⅓%

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Foreign currency translation

Monetary items denominated in foreign currency are translated at the exchange rate in effect at the year end. Investments, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

Cash and cash equivalents

Cash and cash equivalents in the cash flow statement consist of cash on hand and treasury bills with a maturity of 91 days or less from the date of acquisition.

Pension costs and obligations

The Corporation maintains a defined benefit pension plan and a defined contribution pension plan that provide retirement benefits for its employees.

For the defined benefit plan:

- For the purpose of calculating the expected return on plan assets, those assets are valued at market value, which approximates fair value.
- Pension obligations are determined by an independent actuary using the projected benefit method prorated on service and management's best estimate assumptions of expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing, based upon the consumer price index.
- The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.
- Past service costs from plan amendments and the transitional asset are amortized on a straight-line basis over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.
- The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

3. CASH AND TREASURY BILLS

Cash and treasury bills, which comprise treasury bills and commercial paper, have an average effective interest rate of 2.8% (2001 – 2.6%) and an average remaining term to maturity of 49 days (2001 – 53 days). The Corporation's investment policy states that securities investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the short-term portfolio.

4. ACCOUNTS RECEIVABLE

Accounts receivable is comprised of the following:

	(thousands of $)	
	2002	2001
FINANCED PREMIUMS RECEIVABLE	$ 29,063	$ 24,656
DUE FROM BROKERS	24,885	23,229
DUE FROM PARENT	3,860	-
INVESTMENT RECEIVABLE	3,244	691
DUE FROM REINSURERS	2,413	459
ACCRUED INVESTMENT INCOME	1,800	1,931
FACILITY ASSOCIATION RECEIVABLE	1,747	1,055
DUE FROM SELF-INSURED RETENTIONS	1,285	705
PREPAID EXPENSES	861	803
COMPUTER PURCHASE RECEIVABLE	674	731
AMOUNTS RECOVERABLE ON CLAIMS PAID	652	629
OTHER	402	619
TOTAL ACCOUNTS RECEIVABLE	$ 70,886	$ 55,508

5. INVESTMENTS

The components of the Corporation's investments are as follows:

	(thousands of $)			
	2002		2001	
	Carrying Value	Fair Value	Carrying Value	Fair Value
BONDS AND DEBENTURES	$146,579	$151,829	$130,993	$133,611
POOLED BOND FUND	44,498	46,032	41,317	42,273
COMMON SHARES	48,280	54,150	51,978	64,476
PREFERRED SHARES	608	629	9,139	9,144
POOLED EQUITY FUND	11,460	10,297	10,078	8,174
MORTGAGES	13,697	14,381	13,182	13,640
	265,122	277,318	256,687	271,318
INVESTMENTS ACCOUNTED FOR ON THE EQUITY BASIS	3,133	3,133	2,151	2,151
TOTAL INVESTMENTS	$268,255	$280,451	$258,838	$273,469

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Bonds and debentures:

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of investment assets for corporate bonds and debentures and 20% for bonds and debentures issued by any one province. A minimum of BBB is placed on the investment grade of bonds and debentures that may be purchased.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal value and therefore the average effective rates are not materially different from the coupon rates. Interest is generally receivable on a semi-annual basis.

(thousands of $)

	2002		2001	
TERM TO MATURITY (YEARS)	Carrying Value	Average Effective Rates	Carrying Value	Average Effective Rates
GOVERNMENT OF CANADA:				
ONE OR LESS	$ -	-	$ 439	7.4%
AFTER ONE THROUGH FIVE	43,469	4.6%	30,116	5.1%
AFTER FIVE	35,850	5.8%	39,723	6.0%
CANADIAN PROVINCIAL & MUNICIPAL:				
AFTER ONE THROUGH FIVE	8,611	6.3%	9,631	6.1%
AFTER FIVE	18,216	5.9%	14,815	6.2%
CANADIAN CORPORATE:				
ONE OR LESS	-	-	350	8.0%
AFTER ONE THROUGH FIVE	24,226	6.0%	16,008	6.4%
AFTER FIVE	16,207	6.8%	19,911	6.9%
TOTAL BONDS & DEBENTURES	$146,579		$130,993	

(ii) Pooled bond fund:

The Corporation owns units in a Canadian pooled bond fund that has no fixed interest rate. Its returns are based on the success of the fund manager and future interest rates.

(iii) Pooled equity fund:

The Corporation owns units in an international pooled equity fund that has no fixed interest rate. Its returns are based on the success of the fund manager.

(iv) Common shares:

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 1.7% (2001 - 2.0%).

Common shares include $9,146,000 (2001 - $9,989,000) denoted in United States dollars.

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's common shares. As well, no one holding may represent more than 10% of the voting shares of any corporation.

(v) Preferred shares:

Preferred shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 5.3% (2001 - 5.7%).

(vi) Mortgages:

The mortgage portfolio consists entirely of Canadian commercial mortgages with average effective interest rates of 7.6% (2001 - 7.2%) with an average maturity of 3.7 years (2001 - 4.3 years). Principal and interest is receivable on a monthly basis.

(vii) Investments accounted for on the equity basis:

The Corporation has 9% ownership in a crop hail insurance business and indirectly controls an additional 27% of the business through preferred share ownership in other crop hail insurance companies.

Through a subsidiary, the Corporation invested $954,000 in 2002 to obtain 25% ownership in three companies consisting of Charlie Cooke Insurance Agency Ltd. (CCIA), Atlantic Adjusting & Appraisals Ltd. (AAA) and Maritime Finance & Acceptance Corporation (MFAC).

6. NET INVESTMENT IN CAPITAL LEASE

The Corporation, as lessor, has a 37% interest in a lease agreement with Saskatchewan Property Management Corporation, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Saskatchewan. The lease transfers substantially all benefits and risks incident with the ownership of the property to the lessee.

The Corporation's net investment in the capital lease includes the following:

	(thousands of $) 2002	2001
TOTAL MINIMUM LEASE PAYMENTS RECEIVABLE ($583,000 PER YEAR)	$ 4,810	$ 5,394
UNEARNED INCOME	(1,546)	(1,887)
NET INVESTMENT IN CAPITAL LEASE	$ 3,264	$ 3,507

The fair value of the net investment in the capital lease is $4,070,000 (2001 - $4,003,000).

7. CAPITAL ASSETS

The components of the Corporation's investment in capital assets, as well as the related accumulated amortization, are as follows:

	(thousands of $)			
	2002			2001
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
LAND	$ 972	$ -	$ 972	$ 972
BUILDING	18,888	11,042	7,846	8,319
COMPUTER HARDWARE, SYSTEM COSTS AND OTHER EQUIPMENT	15,582	13,507	2,075	4,090
TOTAL	$ 35,442	$ 24,549	$ 10,893	$ 13,381

Amortization for the year is $2,719,000 (2001 - $2,758,000).

8. PROVISION FOR UNPAID CLAIMS

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the date of the statement of financial position.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions.

Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

The Corporation settles some long-term disability claims by purchasing structured settlements from various financial institutions. As part of the settlement, the Corporation provides a financial guarantee to claimants in the event the institutions default on scheduled payments. The net present value of these expected payments as of the balance sheet date total $47,178,000 (2001 - $47,004,000).

Included in the gross provision for unpaid claims is a provision for unpaid reinsurance assumed claims of $11,294,000 (2001 - $12,142,000). The Corporation discontinued its practice of underwriting reinsurance assumed business in 1985, but remains financially responsible for claims run-off on assumed contracts.

Changes in the estimate for the provision for unpaid claims are as follows:

	(thousands of $) 2002	2001
NET UNPAID CLAIMS - BEGINNING OF YEAR	$160,244	$119,100
PROVISION FOR SELF-INSURED RETENTION	(705)	(3,675)
UNPAID CLAIMS ACQUIRED THROUGH ACQUISITION	-	37,701
PAYMENTS MADE DURING THE YEAR RELATING TO PRIOR YEAR CLAIMS	(54,297)	(49,989)
(EXCESS) DEFICIENCY RELATING TO PRIOR YEAR ESTIMATED UNPAID CLAIMS:		
DIRECT BUSINESS	4,387	(53)
REINSURANCE ASSUMED BUSINESS	282	(2,473)
NET UNPAID CLAIMS FOR CLAIMS OF PRIOR YEARS	109,911	100,611
PROVISION FOR CLAIMS OCCURRING IN THE CURRENT YEAR	65,777	59,633
NET UNPAID CLAIMS - END OF YEAR	$175,688	$160,244

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by line of business as follows:

	(thousands of $) 2002			2001		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
AUTOMOBILE	$127,978	$ 20,268	$107,710	$104,817	$ 7,771	$ 97,046
PROPERTY	27,934	2,150	25,784	24,254	3,082	21,172
LIABILITY	38,948	8,049	30,899	31,711	1,827	29,884
ASSUMED	11,295	-	11,295	12,142	-	12,142
TOTAL	$206,155	$ 30,467	$175,688	$172,924	$ 12,680	$160,244

9. EQUITY ADVANCES

The Corporation does not have share capital. However, the Corporation has received equity advances from its parent, CIC, to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

10. UNDERWRITING POLICY AND REINSURANCE CEDED

The Corporation seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers. The policy of underwriting and reinsuring contracts of insurance, in the main, limits the liability of the Corporation to a maximum amount on any one loss as follows:

	(thousands of $) 2002	2001
DWELLING AND FARM PROPERTY	$ 400	$ 350
UNLICENSED VEHICLES	500	500
COMMERCIAL PROPERTY	1,000	1,000
AUTOMOBILE AND GENERAL LIABILITY	1,000	750
(SUBJECT TO FILING AN ANNUAL AGGREGATE OF)	500	750
PROPERTY CATASTROPHE	7,500	7,500

The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency. The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

	(thousands of $) 2002	2001
PREMIUMS EARNED	$20,090	$14,004
CLAIMS INCURRED	26,526	3,924
COMMISSIONS AND PREMIUM TAXES	1,654	1,348
ADMINISTRATIVE EXPENSES	780	762

11. CLAIM DEVELOPMENT RECOVERY

The Corporation acquired 75% of the outstanding shares of the Insurance Company of Prince Edward Island (ICPEI) for cash of $2,770,000 on Jan. 1, 2001 through its subsidiary, SCISL. A recovery on prior year claim development was negotiated as part of the purchase agreement whereby the previous owner will refund to SCISL an amount equal to 75% of any unfavourable development on claims in ICPEI with loss dates prior to 2001. Conversely, SCISL will pay to the previous owner an amount equal to 75% of favourable development on claims with loss dates prior to 2001. The payment in both instances is subject to a $100,000 deductible and is calculated after tax. This agreement is in effect until Dec. 31, 2003 with payment to be made by March 31, 2004.

In 2002, unfavourable development on these prior year claims has resulted in a reduction to claims incurred and a related receivable in the amount of $72,000 (2001 - $461,000). The total receivable at Dec. 31, 2002 is $533,000.

On July 1, 2001 the Corporation acquired 100% of the outstanding shares of Coachman Insurance Company (Coachman) through its subsidiary, SCISL, for cash of $8,185,000. Of the original investment of $8,185,000, $2,700,000 is held in a trust account by the Corporation's legal counsel as a holdback for recovery of unfavourable claim development on claims with loss dates prior to April 30, 2001. This agreement is in effect until Dec. 31, 2002 with payment to be made by March 31, 2003. In the current year, unfavourable development on prior year claims has resulted in a reduction to claims incurred and a related receivable in the amount of $2,481,000 (2001 - $231,000), for a total receivable at year-end of $2,712,000. The Corporation has purchased adverse claim development reinsurance for pre-April 30, 2001 claims in Coachman. The reinsurance has a $3.0 million deductible and provides coverage up to $8.0 million. In 2002, the Board of Directors approved injecting any reinsurance recovery (net of premium) related to this agreement into SCISL in the form of additional shares, and in turn, into Coachman in the form of contributed surplus. As a result, in 2003, $501,000 will be transferred into Coachman from this reinsurance coverage.

12. INVESTMENT EARNINGS

The components of investment earnings are as follows:

	(thousands of $)	
	2002	2001
INTEREST AND DIVIDENDS	$ 14,040	$ 13,779
REALIZED GAIN ON SALE OF INVESTMENTS	1,999	6,616
INCOME FROM CAPITAL LEASE	341	364
INCOME (LOSS) FROM EQUITY INVESTMENTS	28	(633)
INVESTMENT WRITE DOWNS	(2,903)	(672)
TOTAL INVESTMENT EARNINGS	$ 13,505	$ 19,454

13. INCOME TAX

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	(thousands of $) 2002	2001
NET LOSS BEFORE INCOME TAXES FROM TAXABLE SUBSIDIARIES	($11,320)	($765)
COMBINED FEDERAL AND PROVINCIAL TAX RATE	42.62%	45.12%
COMPUTED TAX EXPENSE BASED ON COMBINED RATE	($4,825)	($345)
INCREASE (DECREASE) RESULTING FROM:		
INVESTMENT EARNINGS NOT SUBJECT TO TAXATION	(1,119)	(608)
ADJUSTMENT TO FUTURE TAX ASSETS AND LIABILITIES FOR ENACTED CHANGES IN TAX LAWS AND RATES	1,301	-
DIFFERENCE IN TAX RATES BETWEEN SUBSIDIARIES AND PARENT	568	19
VALUATION ALLOWANCE	7,140	-
OTHER	87	(125)
TOTAL INCOME TAX EXPENSE (RECOVERY)	$ 3,152	($1,059)

The Corporation has non-capital loss carryforwards of approximately $23,156,000 (2001 - $8,366,000) that expire on dates ranging from 2007 to 2009.

14. CASH FLOWS

The change in non-cash operating items is comprised of the following:

	(thousands of $) 2002	2001
CHANGE IN NON-CASH OPERATING ITEMS:		
ACCOUNTS RECEIVABLE	$ (15,378)	$ (317)
DEFERRED POLICY ACQUISITION COSTS	(1,888)	(1,268)
UNPAID CLAIMS RECOVERABLE FROM REINSURERS	(17,787)	657
REINSURERS' SHARE OF UNEARNED PREMIUMS	(1,190)	(665)
FUTURE INCOME TAXES	3,158	(769)
ACCOUNTS PAYABLE AND ACCRUED CHARGES	1,261	1,907
PREMIUM TAXES PAYABLE	1,029	580
AMOUNTS DUE TO REINSURERS	980	1,414
PROVISION FOR UNPAID CLAIMS	33,231	2,814
UNEARNED REINSURANCE COMMISSIONS	172	(127)
UNEARNED PREMIUMS	15,362	4,378
	$ 18,950	$ 8,604

15. PENSION PLANS

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to earnings on the basis of actuarial valuations, the most recent valuation being as of Dec. 31, 1999. The plan and the valuation results of the plan includes both employees of the Corporation and the Saskatchewan Auto Fund.

The actuarial valuation includes a provision for uncommitted and ad hoc benefit increases, and is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate. Results from the latest valuation as at Dec. 31, 1999, projected to Dec. 31, 2002, and the major assumptions used in the valuation, are as follows:

ECONOMIC ASSUMPTIONS:	2002	2001
DISCOUNT RATE – END OF PERIOD	6.20%	6.75%
EXPECTED RETURN ON PLAN ASSETS	6.75%	6.75%
INFLATION RATE	3.00%	3.00%
EXPECTED SALARY INCREASE	4.00%	4.00%
POST-RETIREMENT INDEX	50% OF CPI	50% OF CPI

Information about the Corporation's defined benefit plan is as follows:

	(thousands of $)	
	2002	2001
Accrued benefit obligation		
ACCRUED BENEFIT OBLIGATION, BEGINNING OF YEAR	$ 48,071	$50,664
CURRENT SERVICE COST	294	254
INTEREST COST	3,150	3,133
BENEFITS PAID	(3,292)	(3,206)
ACTUARIAL (GAIN) LOSS ON ACCRUED BENEFIT OBLIGATION	1,721	(2,774)
ACCRUED BENEFIT OBLIGATION, END OF YEAR	$49,944	$ 48,071

	(thousands of $) 2002	2001
Plan assets		
FAIR VALUE OF PLAN ASSETS, BEGINNING OF YEAR	$ 53,095	$ 54,767
ACTUAL RETURN ON PLAN ASSETS	(618)	1,424
EMPLOYEE CONTRIBUTIONS	108	110
BENEFITS PAID	(3,292)	(3,206)
FAIR VALUE OF PLAN ASSETS, END OF YEAR	$ 49,293	$ 53,095
FUNDED STATUS – PLAN SURPLUS (DEFICIT)	$ (651)	$ 5,024
UNAMORTIZED TRANSITIONAL ASSET	(5,340)	(6,083)
UNAMORTIZED NET ACTUARIAL (LOSSES) GAINS	3,541	(2,344)
ACCRUED PENSION LIABILITY	$ (2,450)	$ (3,403)
ACCRUED PENSION LIABILITY – SGI	$ 753	$ 958
ACCRUED PENSION LIABILITY – SASKATCHEWAN AUTO FUND	$ 1,697	$ 2,445

The defined benefit plan pension expense is as follows:

	(thousands of $) 2002	2001
CURRENT SERVICE COST – DEFINED BENEFIT PLAN	$ 186	$ 144
INTEREST COST	3,150	3,133
EXPECTED RETURN ON PENSION PLAN ASSETS	(3,476)	(3,442)
AMORTIZATION OF NET TRANSITIONAL ASSET	(743)	–
AMORTIZATION OF ACTUARIAL (GAINS) LOSSES	(70)	328
DEFINED BENEFIT PLAN PENSION EXPENSE (INCOME)	$ (953)	$ 163
DEFINED BENEFIT PLAN PENSION EXPENSE (INCOME) – SGI	$ (293)	$ 52
DEFINED BENEFIT PLAN PENSION EXPENSE (INCOME) – SASKATCHEWAN AUTO FUND	$ (660)	$ 111

The Corporation also has employees who are members of the Capital Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to matching employee contributions of 5.5% to the plan.

The defined contribution plan pension expense is as follows:

	(thousands of $) 2002	2001
CURRENT SERVICE COST - DEFINED CONTRIBUTION PLAN	$3,538	$3,307
DEFINED CONTRIBUTION PLAN PENSION EXPENSE - SGI	$1,088	$1,062
DEFINED CONTRIBUTION PLAN PENSION EXPENSE - SASKATCHEWAN AUTO FUND	$2,450	$2,245

16. RELATED PARTY TRANSACTIONS

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan, and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year end are as follows:

CATEGORY	(thousands of $) 2002	2001
ACCOUNTS RECEIVABLE	$3,860	$ -
DEFERRED POLICY ACQUISITION COSTS	4,936	4,492
INVESTMENTS	2,258	2,669
ACCOUNTS PAYABLE AND ACCRUED CHARGES	255	138
DIVIDENDS PAYABLE	-	575
PREMIUM TAXES PAYABLE	9,504	8,680
PROVISION FOR UNPAID CLAIMS	852	1,141
UNEARNED PREMIUMS	1,135	1,024
PREMIUMS WRITTEN	2,723	2,425
PREMIUMS EARNED	2,585	2,396
CLAIMS INCURRED	798	1,584
PREMIUM TAXES	9,060	8,475
ADMINISTRATIVE EXPENSES	1,840	1,776
INVESTMENT EARNINGS	153	146

The Corporation acts as administrator of the Fund. Administrative and claim adjustment expenses incurred by the Corporation are allocated to the Corporation and the Fund directly or on the basis of specific distributions. Amounts incurred by the Corporation and charged to the Fund were $75,983,000 (2001 - $71,271,000) and accounts payable are $2,417,000 (2001 - $3,059,000).

Related party transactions arise through the Corporation's acquisition of 25% ownership in companies acquired in 2002. Through its 75% ownership in ICPEI, the Corporation has direct premiums that are written with Charlie Cooke Insurance Agency Ltd. (CCIA), claim adjusting fees from Atlantic Adjusting & Appraisals

Ltd. (AAA) and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation (MFAC). In 2001 the Corporation was affiliated with these companies through a minority shareholder of ICPEI who is a member of ICPEI's senior management. The Corporation's receivable from CCIA at the end of the year is $624,000 (2001 - $676,000) and direct premiums written through CCIA are $9,981,000 (2001 - $7,228,000). Commissions paid to CCIA in 2002 are $1,056,000 (2001 - $862,000). The Corporation incurred $360,000 (2001 - $301,000) in claim adjusting fees from AAA and premiums financed through MFAC in 2002 were $3,363,000 (2001 - $2,512,000). The policies written and the claim adjusting expenses paid are in the normal course of business.

Other related party transactions are described separately in the notes.

17. FAIR VALUES

The following method and assumptions were used to estimate the fair value of each class of financial instrument:

(i) For the following financial instruments the carrying amounts approximate fair value due to the immediate or short-term nature of these financial instruments:
- (a) cash and treasury bills
- (b) accounts receivable
- (c) accounts payable and accrued charges
- (d) dividends payable
- (e) premium taxes payable
- (f) amounts due to reinsurers

(ii) For the following financial instruments the fair values are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices:
- (a) bonds and debentures
- (b) common shares
- (c) preferred shares

(iii) For the following financial instruments the fair values are considered to approximate quoted market values of the underlying investments, which is normally the current bid price:
- (a) pooled bond fund
- (b) pooled equity fund

(iv) Mortgages

The fair value is calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using current interest rates.

(v) Net investment in capital lease

The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

(vi) Equity investments

The fair value of investments accounted for on the equity basis is considered to approximate book value.

(vii) Provision for unpaid claims and unpaid claims recoverable from reinsurers

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability (note 8).

18. FACILITY ASSOCIATION

Through its subsidiaries, the Corporation is a participant in various risk sharing pools whereby most companies in the industry share resources to provide insurance for high risks.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $) 2002	2001
PREMIUMS WRITTEN	$ 2,032	$ 980
PREMIUMS EARNED	$ 1,640	$ 927
CLAIMS INCURRED	1,907	817
COMMISSIONS	217	119
PREMIUM TAXES	67	33
ADMINISTRATIVE EXPENSES	169	72
TOTAL CLAIMS AND EXPENSES	2,360	1,041
UNDERWRITING LOSS	(720)	(114)
INVESTMENT EARNINGS	53	63
NET LOSS	$ (667)	$ (51)
FACILITY ASSOCIATION RECEIVABLE	$ 1,747	$ 1,055
UNEARNED PREMIUMS	555	163
PROVISION FOR UNPAID CLAIMS	2,457	1,543

19. COMPARATIVE FINANCIAL INFORMATION

For comparative purposes, certain 2001 balances have been reclassified to conform to 2002 financial statement presentation.

IN MEMORIAM

Al Wawro, Supervisor, Benefit Administration, Human Resources, Head Office, was sought out by co-workers and staff for assistance because he had a quiet and reassuring way of making problems easier to handle. Al worked at SGI for 24 years. He died unexpectedly on April 27, 2002 at the age of 50.

Debbie Miller, Underwriting Assistant, Personal Lines Home, Head Office, was known as a character with a raucous sense of humour that kept her co-workers laughing. Debbie worked at SGI for 21 years. She passed away on Sept. 30, 2002 at the age of 39.

Sherry Miller, Manager, Facilities Management, Head Office, was a supportive manager who believed in the potential of her staff and who provided them with many opportunities for growth. Sherry was with SGI for 17 years. She passed away on Oct. 21, 2002 at the age of 46.

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SGI CANADA